

Tax Levy Review of Cincinnati Museum Center Hamilton County, Ohio

October 28, 2013

Conducted by
Benefactor Group
Rea & Associates

Introduction

In the past sixty days, the team of Benefactor Group (nonprofit consultants) and Rea and Associates (certified public accountants) has conducted a thorough review of the operations of the Cincinnati Museum Center (CMC) and its aspirations for the future. We appreciate the assistance of staff members of Hamilton County and of the Museum Center as we conducted our research and developed this report.

Benefactor Group has extensive experience with cultural institutions, providing a broad range of evaluation, capacity building, and fund development expertise. In recent years, Benefactor Group has conducted assessments, developed recommendations, or created multi-year fundraising plans for numerous clients, such as the following.

- **Columbus Metropolitan Library**, which is consistently ranked among the top libraries in the United States, receives public funding through the State of Ohio and a levy that was overwhelmingly renewed by Franklin County voters in 2010. They engaged Benefactor Group to explore the potential for increased philanthropic support. Through a thorough assessment process that included discussions with donors, board members, community leaders, and staff; extensive review of records and materials; and competitive benchmarking, we provided detailed and comprehensive recommendations and created a development plan.
- **COSI (Center of Science and Industry)**, which has been designated one of the nation's top science education centers, enjoys both public and private support. COSI leaders initially engaged Benefactor Group to assess fundraising programs and create a plan to sustain and increase the annual fund. We continued our engagement with COSI, coaching the development staff to implement the plan. Benefactor Group was then asked to conduct a feasibility study for a campaign. We recommended specific strategies to prepare for the campaign and designed a unique campaign structure. COSI leaders adopted our recommendations and, with our guidance, they are currently conducting a major gifts campaign.

We are also familiar with the Cincinnati Museum Center. In 2005, Benefactor Group helped the Center's team develop a case for support and prepare for a major gift campaign. We welcome this opportunity to build on our knowledge and help strengthen the Center's fiscal health.

Rea & Associates is an accounting and consulting firm with specialists who have provided a range of services and professional counsel to organizations in the nonprofit sector. Rea & Associates has provided audit and tax services and assistance with special projects to the Greater Columbus Arts Council, which has been a client of nonprofit services director Mark Van Benschoten for 20 years. Mark has also provided those services to COSI for the past ten years. Rea & Associates has also served the Zanesville Museum of Art and the Jazz Arts Group of Columbus, among other clients.

Together we bring a broad spectrum of skills and experience to a performance review of CMC.

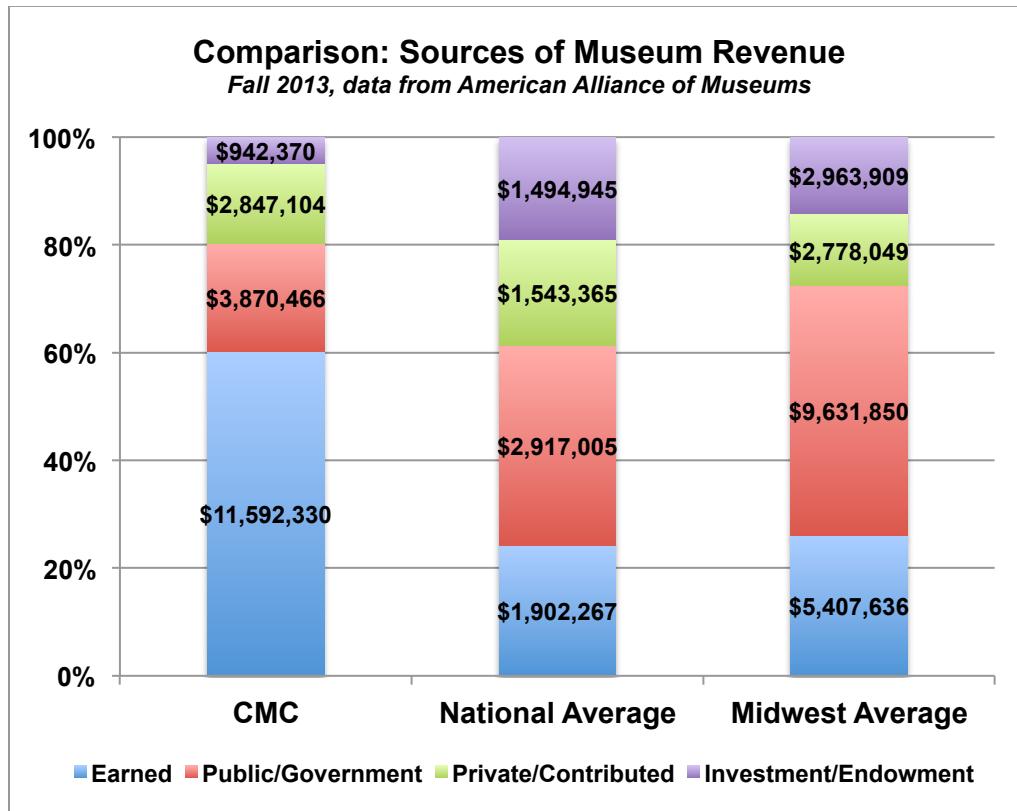
Background on Museums

Like most museums in America, Cincinnati Museum Center relies on a mix of sources to fund operations, administration, and capital expenses. This mix includes four primary sources:

- earned revenue (from admissions; food, parking, and retail operations; exhibit sponsorships; program fees; and memberships);
- contributions (from individuals, foundations, and corporations);
- a draw on the growth of its endowment (interest and capital gains); and
- public funds.



The proportion of funding from each of these sources varies among museums across the country. Compared to its peers, CMC earns a significant proportion of its revenue and receives a smaller share from endowment and public funds; contributed revenue is approximately equivalent to that of its peers' (both in actual dollars and as a percent of total revenue).



Given its dependence on earned revenue, CMC has taken steps to capture and analyze visitor information through the adoption of an innovative data management system (Siriusware).

Museum funding sources are interdependent. A museum's capacity to earn revenue is dependent on engaging exhibits and programs that draw an appreciative audience; exhibits are often funded through a mix of contributions and sponsorships. Donors are more likely to fund operations, capital, and endowment when they believe the institution is having a beneficial impact, which is partly measured through the community's attendance and participation. Public funds can undergird each of these sources to ensure high-quality programs and strengthen the public's willingness to visit or donate.

Funding is also affected by external factors beyond CMC's control. Economic conditions may influence the willingness of the public to visit the museum, charitable giving, or growth of the endowment's investments. CMC must compete with other leisure time activities to attract visitors. Even weather can bolster or undermine the success of a blockbuster exhibit, film, or general admission.

Cincinnati Museum Center is unique among its peers and, therefore, some financial considerations defy peer comparisons. The institution is home to four distinct cultural experiences under one roof: Cincinnati History Museum, Museum of Natural History & Science, Duke Energy Children's Museum, and Robert D. Lindner Family OMNIMAX® Theater. These four separate organizations merged, resulting in operating efficiencies and programmatic

synergies that have increased as the alignment among the four entities has improved. Their work is complemented by the Cincinnati History Library and Archives at Union Terminal, the Geier Collections and Research Center, and the Edge of Appalachia Preserve. CMC is also the steward of the National Historic Landmark, Cincinnati Union Terminal. This Art Deco icon was ranked by the American Institute of Architects' 45th on their list of 150 Most Important Architectural Buildings in the nation. The responsibility to care for this architectural treasure adds another variable to CMC's complex financial model.

It is in the context of this dynamic operating environment that Hamilton County has evaluated the merits of public funding to underwrite a portion of the repair and operating costs of Union Terminal (through voter-supported operating levies). This report evaluates the impact of the current operating levy. We assess the extent of CMC's compliance with the requirements of the current levy funding and the museum's capacity to deliver on its promises to greater Cincinnati with continued support from an operating levy.

Our primary findings include the following.

- Cincinnati Museum Center has complied with most aspects of the Agreement with Hamilton County. The requirement to secure capital funding for the restoration of Union Terminal and to become financially independent has been delayed, primarily by two factors: the realization that the cost of restoration will be much higher than initial estimates, and the impact of both the facility and the general economy on donors' capacity to support both CMC operations and the endowment.
- Cincinnati Museum Center is positioned for financial sustainability, pending another levy.
- Cincinnati Museum Center meets and in some cases exceeds the performance standards of peer institutions.
- There are opportunities to continue strengthening the capacity of the Museum Center so it can sustain its beneficial impact on the Greater Cincinnati region.

Based on our findings, we recommend the Cincinnati Museum Center take the following steps to sustain its beneficial impact on Hamilton County and the region and extract the greatest return on any continued public investment. The following recommendations are described in detail in the full report.

- We recommend that important museum constituencies—the boards, volunteer corps, public officials, educators—participate in comprehensive planning. The resulting documents may envision multiple scenarios with different assumptions about the extent of public funding and the status of Union Terminal's restoration.
- Strengthen financial capacity by increasing staff so that day-to-day reporting duties are assigned to appropriate staff and senior officers can devote attention to more strategic and sophisticated fiscal management.
- Increase the impact of the endowment through an increased draw on the exiting funds (up to 4.5%) and through renewed efforts to secure current and planned gifts.
- Work with county and city leaders to resolve ownership of Union Terminal, which may enable Hamilton County to pursue historic tax credit financing. The joint effort may also galvanize the political will to forge a public-private partnership to secure the funds for the renovation and restoration of the architectural icon and civic treasure that serves as the Museum Center's home.

Task 1: Compliance with Agreements

Based on the directives from the Scope of Service, the following table assesses Cincinnati Museum Center's compliance with the following items during the current levy period.

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| A. CMC is seeking renewal of the levy limited to the current levy millage. | The CMC levy is consistent with this requirement. |
| B. Proceeds of the current levy will be used for costs directly attributable to the care, operations, preservation, restoration, expansion improvements, and maintenance of the Union Terminal. | <p>Hamilton County and CMC have used the proceeds of the levy for costs attributable to the maintenance, operation, and repairs of the Union Terminal. (See Section 2A for the categories of costs funded by levy dollars for the current levy period.) Hamilton County administers the maintenance of the Union Terminal and has awarded a contract for facility maintenance to CMC. The County is responsible for payments under this contract. Facility maintenance agreements have been in place dating back to the prior levy period. The current agreement became effective January 1, 2010 and extends through December 31, 2014.</p> <p>The facility maintenance agreement was awarded to CMC under the County's procurement policy in accordance with the public bidding requirements of Chapter 307 of the Ohio Revised Code. Costs reimbursed under this agreement represent a majority of costs funded by levy dollars for the current levy period. Other costs include utilities, professional fees, auditor's fees, and administrative costs allowable under the current agreement.</p> |
| C. CMC will use its best efforts to increase its endowment to \$30 million by the end of 2014. | <p>The Resolution Authorizing the County Administrator to Enter into an Agreement with the Cincinnati Museum Center Regarding the Use of the Museum Center Tax Levy proceeds, states:</p> <p style="padding-left: 40px;">... the definition of endowment shall include all funds that would be included as investments or as endowment under standards used nationally by non-profit organizations and shall include all cash, marketable securities, bonds, commercial paper, and other instruments generally considered to be investments as well as documented pledges and planned giving arrangements in accordance with the valuation standards established by the National Committee on Planned Giving. It shall <u>not</u> include items in CMC's collections.</p> <p>The Cincinnati Museum Center's endowment has grown significantly since 2010 and has now surpassed the \$30 million required benchmark.</p> |

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| | <p>CMC formed Cincinnati Museums Foundation in 2011 to build and manage endowment assets. As of June 30, 2013 CMC's endowment, as defined in the Memorandum of Agreement Between the Board of County Commissioners of Hamilton County and Cincinnati Museum Center, Inc. dated October 6, 2010, totaled \$38.5 million. Of this total, CMC directly held \$18.1 million in endowment assets, and \$12.9 was held by Cincinnati Museums Foundation restricted for the benefit of CMC. Additionally, CMC is the beneficial recipient of \$7.5 million funds held at Greater Cincinnati Foundation.</p> |
| <p>D. CMC will implement the recommendations of the Performance Review Report prepared by TATC dated June 2009 as outlined in the current agreement including:</p> <ul style="list-style-type: none"> a. Complete operations goals and objectives of its Strategic Plan. | <ul style="list-style-type: none"> a. In the period covered by the recent levy, Cincinnati Museum Center has been guided by several planning documents. <ul style="list-style-type: none"> • A "Strategic Master Plan" was prepared with the assistance of Lord Cultural Resources in 2005-2006. Preliminary recommendations included in that report have been integrated into CMC operations. • The CMC Board of Trustees approved a "Strategic Action Plan" in September 2006, which defined six "mandates;" qualitative statements that reflect the details of the "Strategic Action Plan" are refined in the "Vision Master Plan." • The Vision Master Plan (most recently "refreshed" in 2008/09) sought to consolidate these planning documents at a high level and declared the four following "Vital Strategic Objectives." <ul style="list-style-type: none"> ○ <i>Increase endowment with an active major gift, planned giving, and capital campaign program.</i> The first two elements of this have been pursued effectively. CMC began a campaign in 2006-2007 but scaled back the effort due to the deteriorating economy, which had a significant impact on charitable giving. ○ <i>Be effective advocates...resulting in placement of a countywide bond to fund required repairs...</i> Public funding has enabled CMC to address some of the most urgent repairs to Union Terminal but nowhere close to the \$150 million overhaul recommended by two different architectural firms. ○ <i>...conduct exhibit planning to engage current museum audiences...</i> A comprehensive |

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| <p>b. Continue to increase operating revenue through earned income operations.</p> <p>c. Develop a comprehensive employee time accounting system.</p> | <p>exhibit plan was developed by PGAV. Audience research conducted in 2011 touched upon the impact of various exhibits and events on visitor attendance.</p> <ul style="list-style-type: none"> ○ Define “world-class” quality and make this Museum Center’s “brand promise” deliver on this promise to each audience and constituent. CMC has defined “world class” as delivering content and quality that meets/exceeds a visitor’s experience at outstanding museums comparable to CMC. A branding exercise conducted in 2009 defined the brand promise as Captivating, Credible, & Inspiring. <p>As a result of these various planning exercises and documents, CMC has taken the necessary steps to refine its mission and vision, improve its operations, adapt to changing economic conditions, and respond to the needs of the community. More recent discussions and documents have begun to envision CMC’s continued progress, although museum leaders believe this is contingent on sustainable financial models that result from the comprehensive restoration of Union Terminal. Formal plans are reaching the end of their relevance, and lack specific metrics to provide a quantitative measure of the institution’s progress.</p> <p>b. CMC has taken several actions designed to enhance earned income operations, including various capital improvements to the parking lot and the implementation of an integrated point of sale system for admissions, membership, parking, and retail. Earned revenue provides a substantial proportion of CMC’s operating support compared to that of other museums. See section 2B for further analysis of earned income operations.</p> <p>c. July 1, 2012, CMC has converted from a manual paper time sheet system to an electronic Time and Attendance package provided by CMC’s payroll processing provider, Paycor. This system, while not yet integrated with the general ledger/financial reporting system, has provided CMC’s managers with the tools to efficiently manage its large base of hourly and part-time employees. The system provides employees without access to computers the ability to clock in and out and provides managers with real-time hours worked in the current payroll period. Efficiencies gained include the reduction of duplicate manual time entries along with the goal of reduced overtime hours. (Note that a study had not been performed to determine/verify that overtime hours have decreased as a result of the new system.)</p> |

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| <p>d. Upgrade its financial management software to provide real-time financial reporting on an activity basis, with integrated performance measurement.</p> <p>e. Continue efforts to identify and then implement new software to accurately and meaningfully collect ticketing, donor, visitor, and membership data.</p> | <p>d. CMC currently maintains Sage as its general ledger/financial reporting software package, which was also in place for the previous levy period. This software module was not fully upgraded to a real-time system, as it was deemed impractical for certain types of expense reporting (i.e., allocations of payroll costs for salaried employees to various programs and activities that are unknown until the end of the payroll period, since the allocations are based on percentages of total hours worked). The new ticketing software (installed and implemented in November 2012, see e. below) allowed for real-time reporting of ticketing, admissions, and retail revenues. During the third fiscal quarter of 2012, CMC did overhaul the chart of accounts to allow it to track costs by specific activity and department.</p> <p>e. Since June 2009, CMC has undergone an internal assessment of all systems, including front-of-house ticketing and admissions and donor database software. These two systems collect ticketing, visitor, membership, and donor data. Through a Technology Evaluation <i>ad hoc</i> committee, CMC is restructuring the member, donor, and general databases to improve the analytical capabilities of CMC and leverage the benefits of Raiser's Edge by Blackbaud.</p> <p>For the donor database, CMC engaged Heller Consulting in December 2011 to train staff in the use of Raiser's Edge so they could restructure the database for more effective and efficient reporting. According to Blackbaud, Raiser's Edge is a system used by more than 500 museums in the U.S.</p> <p>The effort to replace the internal ticketing systems began in 2008. CMC attempted a transition away from Ticketmaster software but could not find a product to suit its unique needs as a multiple-museum facility. Reorganization of the museum in 2010 created the new Informatics Department, which increased search efforts to find a new product. In May 2012, the department decided on Siriusware, which was launched in the fall. This software has given CMC the capability to produce instant membership cards, as opposed to the previous inefficient and costly membership application and mailing process. The new membership cards model a "ski lift" ticket: one bar code is assigned per patron to use throughout their day at CMC. The integration of all aspects of museum attendance and purchase contribute to a seamless visitor experience and give CMC the capability to tailor the experience for each member. CMC is currently looking at extending this experience to all attendees.</p> |

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| f. Consolidate its technology staff into a single information technology division. | f. During the 2011 fiscal year, CMC consolidated its technology staff into a single information technology division. |
| <p>E. In order to reach the goal of ensuring that CMC becomes financially sustainable and no longer requires future levy support, CMC will:</p> <ul style="list-style-type: none"> a. Monitor the capital needs of the Union Terminal on an annual basis and appropriately seek capital funding. b. Continue to provide exhibits and programming that ensure CMC maintains its attendance at over one million visitors annually and seeks to increase attendance through its exhibit and programming efforts. | <p>a. CMC's facilities department monitors the capital needs of the Union Terminal on an ongoing basis (monthly and annually). Capital projects are prioritized by the facilities department and based on various factors including emergency repairs, weatherization improvements, and building preservation. Most capital projects are funded through CMC's funds and grants from the City of Cincinnati, which has appropriated approximately \$200,000 on an annual basis for Union Terminal capital projects. Additional gifts designated for capital improvements have been sought from individuals, corporations, and foundations; \$1.2 million was secured between FY 2010 and 12; an additional \$200,000 has been pledged in FY 2014. CMC has completed Union Terminal Repair Project One, which is a program designed to provide structural improvements to one section of the Union Terminal. This project--funded by public funds from the 2004 Levy, the City of Cincinnati, the State of Ohio, federal grants, and private donors--resulted in ground-to-roof restoration including structural, roof, and exterior masonry repairs, new windows and a new HVAC system, as well as the restoration of two historic spaces, the formal dining room and the three historic dining rooms used by train passengers and locals alike. Other projects funded by the City of Cincinnati include the repair of chillers, air conditioning compressors, a boiler stack, a fire alarm panel, and mold remediation projects.</p> <p>b. The Museum Center has provided data showing that the aggregate number of visits to the museums, OMNIMAX®, special exhibits, and other activities has exceeded 1.3 million in each of the past four years. The attendance figures are documented using the Museum Center's ticketing system. Visitors to the library, special events, Culturefest, or Amtrak are not included in the attendance data. Special exhibits have helped CMC provide a "fresh" experience to attract visitors. This has become an important tactic because the state of the building has delayed significant upgrades to permanent exhibits. The temporary exhibits have drawn an increasing proportion of these visitors (from 10% in FY 2010 to 13% in FY 2013). Reliance on special "blockbuster" exhibits must be carefully balanced with CMC's core</p> |

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| <p>c. Maintain the schedule of fundraising goals established by the 2010 agreement.</p> <p>d. Focus its attention on revenue-generating efforts including parking, facilities rental, food service, and retail.</p> | <p>attractions (i.e., permanent exhibits, educational programs). CMC has improved the promotion of special exhibits and programs—as well as CMC’s permanent exhibits—which may have contributed to the strong attendance.</p> <p>c. The Museum Center has exceeded the goal of \$30 million in endowment by the end of 2014. (See Section 2B, History and Spending of the Endowment.)</p> <p>The growth of the endowment can be attributed to a more stable economy and a moderate draw on endowment assets, together with the fundraising focus of the Foundation’s board of directors and CMC’s Institutional Advancement staff members. Some of the initiatives during the past four years include:</p> <ul style="list-style-type: none"> • board commitment to substantially increase endowment; • building the case for endowment; • addition of a fulltime planned giving officer; • development of a list of desired “field of interest” endowment funds; and • increased personal meetings with prospective donors and their advisors. <p>During this time new contributions to endowment have fluctuated, due in part to the unpredictable nature of bequests and other estate gifts. Contributions for CMC operations (excluding Levy support) have been flat at slightly more than \$3 million (which is consistent with stagnant giving to arts and culture in all but the most recent year’s charitable giving).</p> <p>d. CMC has taken several actions designed to enhance earned income operations, including various capital improvements to the parking lot and the implementation of an integrated ticketing system for admissions and parking. See Section 2B for further analysis of earned income operations.</p> |

Task 2: Comprehensive Financial Analysis

A. Tax Levy Funding

Hamilton County chose to outsource repair and maintenance services for Union Terminal. CMC was the successful bidder and was awarded the three current and prior facility maintenance agreements under the County's procurement policy in accordance with the public bidding requirements of Chapter 307 of the Ohio Revised Code. Payments made to CMC represent a majority of costs funded by levy dollars for the current levy period. The County also reimburses CMC for actual insurance premiums and utilities related to the Union Terminal property. Facility maintenance agreements have been in place dating back to the prior levy period. The current agreement became effective January 1, 2011 and extends through December 31, 2014. CMC invoices the County on a monthly basis for repair and maintenance services as provided by the facility maintenance agreement. The agreement provides for payments up to an established limit. The following table represents all CMC costs that qualify as reimbursable costs up to the limits established in this contract.

Table 1: CMC Reimbursable Costs, 2010-2013

| | 2010 | 2011 | 2012 | 2013* |
|-------------------------------------------------------|---------------------|--------------------|------------------|------------------|
| Maintenance, operations, and repairs | | | | |
| Payroll | \$ 1,037,062 | \$ 1,171,408 | \$ 1,197,409 | \$ 815,190 |
| Contracted Services | 565,200 | 548,786 | 578,837 | 379,487 |
| Professional Fees | 3,193 | 5,206 | 4,392 | 546 |
| Supplies | 138,882 | 176,150 | 196,443 | 138,541 |
| Total maintenance, operations and repairs | 1,744,337 | 1,901,550 | 1,977,081 | 1,333,764 |
| Utilities and Insurance | 993,324 | 922,530 | 926,249 | 646,903 |
| Total reimbursable costs incurred by CMC | 2,737,661 | 2,824,080 | 2,903,330 | 1,980,667 |
| Amount received from Hamilton County | | | | |
| Maintenance and Operations ** | 1,969,120 | 1,919,544 | 1,974,492 | 1,349,312 |
| Utilities | 993,324 | 922,530 | 926,249 | 560,000 |
| Total amount of cost reimbursed | 2,962,444 | 2,842,074 | 2,900,741 | 1,909,312 |
| Excess of costs incurred over costs reimbursed | \$ (224,783) | \$ (17,994) | \$ 2,589 | \$ 71,355 |

*2013 only contains 8 months of activity.

**Of the amount shown for 2013, \$168,664 related to August activity was received in September.

Note: There are no funds available in the Hamilton County purchase order for utilities and insurance for the last four months of the year. Estimated utilities and insurance cost for the last four months of 2013 for which no reimbursement is available is \$297,500 based on actual amounts incurred in the prior year.

B. Comprehensive Financial Analysis

The following analysis is based on a review of audited financial statements and other documents provided by CMC as well as on interviews with CMC staff, in light of industry standards.

Financial Results and Analysis of Variance From Budget

The analysis of financial statement results for the current levy period is based on the audited consolidated financial statement amounts (prepared in accordance with generally accepted accounting principles) for the fiscal years ending June 30, 2010 through June 30, 2012. The amounts provided by CMC for the year ended June 30, 2013 are unaudited as of the date of this report, as the current financial statement audit is in progress.

Bottom-line changes in net assets are a function of operating results and the results of investment gains and/or losses. With the relatively large size of investments in marketable securities held directly by CMC (approximately \$25.3 million on June 30, 2012) in relation to total revenues and support (approximately \$18.2 million for the year ended June 30, 2012), a small percentage fluctuation in year-over-year total market values of these funds would have a significant impact on bottom-line changes in net assets. As CMC's obligation and intent are to hold these investments over the long-term while drawing on a small percentage to supplement museum activities (roughly a third of these investment balances are permanently restricted endowment funds), the inclusion of investment gains and losses were not deemed relevant. Since gains are expected over the long-term, the endowment/investment draws are considered a reliable source of funds to supplement museum activities. Note that these withdrawals represent a mere transfer of funds and do not increase or decrease CMC's overall net asset position.

Operating results also exclude one-time, non-recurring expenses such as CMC's merger costs incurred during the year ended June 30, 2013 with the National Underground Railroad Freedom Center. Also excluded from operating results are endowment and capital gifts, as these items are non-recurring in nature, along with the related depreciation expense. CMC's operating results for the current levy period are displayed in Table 2 (for the fiscal years ended June 30).

Table 2: CMC's Operating Results for the Current Levy Period (FYE June 30)

| | 2010 | 2011 | 2012 | 2013 |
|--------------------------------------------------|------------------|------------------|--------------------|--------------------|
| Changes in net assets per audited financials | \$6,928,468 | \$3,549,600 | \$(1,623,829) | \$952,558 |
| Less: | | | | |
| Investment (income) loss | (1,848,098) | (4,812,791) | 139,532 | (1,495,582) |
| Endowment and capital gifts, net of exp. | (7,389,417) | (1,368,563) | (168,074) | (1,686,882) |
| Add: | | | | |
| Depreciation expense | 1,987,889 | 1,918,831 | 2,028,421 | 2,028,277 |
| Merger transition costs | - | - | - | 641,151 |
| Endowment draw | 922,887 | 912,691 | 954,516 | 1,018,811 |
| Other | (227,218) | (8,093) | (70,271) | (194,598) |
| Total operating income exceeding expenses | \$374,511 | \$191,675 | \$1,260,295 | \$1,263,735 |

Distinguishing between operating and non-operating activities for nonprofit organizations can be an arbitrary process, as there is no universal definition of operations. As a result, financial reporting standards neither require nor preclude a nonprofit organization from classifying revenues and expenses as operating or non-operating. The above calculations represent CMC management's representations of operating income as approved by the Board of Directors, which is consistent with our expectations and reporting by other nonprofits organizations. Depreciation expense represents a significant charge against the change in net assets on an annual basis. Since a majority of these long-term assets being depreciated have been funded by specific campaigns or grants (the revenue of which is excluded from operations), it is reasonable to exclude these depreciation charges from operations.

In analyzing total changes in net assets, the significant income from the fiscal year ended June 30, 2010 was the result of a capital improvement state grant received during the year, the costs of which were capitalized as work in progress as of June 30, 2010. Other previous positive operational years for CMC have been the direct result of significant contributions (long-term pledges, bequests, etc.) or successful special exhibit activity (admissions, rentals, etc.). Like

most nonprofit cultural institutions, CMC is largely dependent on these types of activities to have positive operational results. Other admissions, memberships, and earned income operations may represent a significant portion of total support and revenues for CMC. However, any increases in these activities appear much less likely to affect the operational results, due to the volume increases required (costs associated with these activities as opposed to contributions and grants).

Budget Results

CMC's board-approved budget for the fiscal year ended June 30, 2013 included a budgeted operating income balance of \$807,426, which exceeded the actual unaudited income of \$456,309. A large majority of the unbudgeted income resulted from the reduced expenditures incurred as a result of the fiscal year 2013 merger with the National Underground Railroad Freedom Center. These shared services savings were calculated by management to be \$508,472. Overall revenues were within 1% of the approved budget for the fiscal year ended June 30, 2013.

Revenue Sources and Financial Statement Trends

CMC's proportion of public and private support vs. earned revenue has varied over the current levy period. Public and private support represented about 47% of total revenues and support, while earned revenues represented 53% of total revenues and support. Fluctuations between periods were the result of significant contributions (long-term pledges, bequests, etc.) received or successful special exhibits activity (admissions, rentals, etc.) unique to any specific fiscal year.

Public and private support categories are displayed in Table 3 under the current levy period for the fiscal years ended June 30.

Table 3: Public and Private Support (FYE June 30)

| | 2010 | 2011 | 2012 | 2013 |
|-----------------------------------------------------------------|---------------------|--------------------|--------------------|--------------------|
| Hamilton County Union Terminal Management Contract | \$3,244,889 | \$3,799,838 | \$3,496,543 | \$3,204,233 |
| Private Support from individuals, corporations, and foundations | 4,480,366 | 2,851,048 | 3,571,237 | 3,664,203 |
| Federal, State, City, and County Grants | 6,042,564 | 1,675,626 | 373,923 | 248,855 |
| Total Support | \$13,767,819 | \$8,326,512 | \$7,441,703 | \$7,117,291 |

Note: The support balances from the fiscal years ended June 30, 2011 and 2010 were the result of significant state and local capital improvement funds received mostly during the 2010 year, the costs of which were capitalized as building and leasehold improvements. This funding related to Union Terminal Repair Project One, as described in Task 1. Excluding this grant, overall public and private support revenue trends have been consistent.

Earned revenue categories are as follows under the current levy period for the fiscal years ended June 30.

Table 4: Earned Revenue (FYE June 30)

| | 2010 | 2011 | 2012 | 2013 |
|--------------------------------------------|--------------------|--------------------|---------------------|---------------------|
| Admissions – Museum | \$1,694,610 | \$1,529,792 | \$1,790,841 | \$1,535,144 |
| Admissions – Special Exhibits | 596,527 | 1,455,094 | 1,935,857 | 2,935,583 |
| Admissions – OMNIMAX® Theater | 1,189,882 | 1,280,525 | 1,157,175 | 998,748 |
| Memberships | 1,760,632 | 1,764,705 | 1,933,471 | 1,980,182 |
| Subtotal | \$5,241,651 | \$6,030,116 | \$6,817,344 | 7,449,657 |
| CMC Exhibit Sales | 560,697 | 435,793 | 556,987 | 541,052 |
| Parking | 887,110 | 982,742 | 1,091,499 | 1,090,060 |
| Retail (food service, catering, gift shop) | 1,108,972 | 1,012,740 | 1,282,310 | 1,377,053 |
| Program Fees and Other Revenue | 1,064,476 | 1,226,864 | 967,615 | 1,722,253 |
| Total Support | \$8,862,906 | \$9,688,255 | \$10,715,755 | \$12,180,075 |

CMC has taken several actions designed to enhance earned income operations, including various capital improvements to the parking lot and the implementation of an automated ticketing system for admissions and parking. One strategy for increasing earned revenues, implemented in March 2010, included the raising of membership fees by incorporating free parking as a membership benefit. This strategy resulted in a net increase in membership fees after factoring in less parking. The overall trend represents a significant increase in earned revenues over the levy period of about 10% per year on average. In addition, CMC has taken advantage of special exhibit opportunities to increase admissions and opportunities for other retail sales, parking, and more.

Personnel costs (salaries, wages, temporary employees, along with payroll taxes and employee benefits) represent the largest category of expense, making up 40% to 45% of entity-wide costs. These costs are a function of headcount and salary trends, which are analyzed below.

Salary Trends

Salary increases are evaluated annually, but are dependent upon financial results. Increases are given in the form of merit raises, with a percentage of total labor budgets being allocated to each vice president's division. The vice president can allocate the dollars using their own discretion with only two stipulations: that the total amount of salary increase cannot exceed the stated percentage of the total labor budget of their division and that there must be a reasonable relationship between the merit increase and the annual performance appraisal of the employee receiving the award. The human resources department examines the suggested raise increase for each employee and that employee's performance appraisal before approving the increase.

The Board of Directors has approved the merit increases each year they have been awarded and salary surveys have been consulted to determine the percent of projected increase anticipated to be given by other organizations in recommending the increase amount.

During the current levy period, merit raises have been effective on October 30 or November 4. Staff must have been employed prior to May 1 of the year in which the increase is given to be eligible for the merit increase. Staff employed prior to that date have not been eligible for the increase if they received a promotion that resulted in a wage increase after May 1 of the year the merit increase was awarded.

In spring 2011, a 1.5% across-the-board increase was given to all staff employed prior to July 1, 2010 (excluding the president and CEO and the vice presidents). This increase was awarded in consideration of the fact that no increases had been given the previous two years, 2009 and 2010. Changes to the salary base are as follows for recent years.

Table 5: Changes to Salary Base in Recent Years

| Date | 2009 | 2010 | 6/5/2011 | 10/30/2011 | 11/4/2012 | 11/4/2013 |
|-----------------|------|------|-----------------------|-----------------|-----------------|-------------------------------|
| Increase | None | None | 1.5% across the board | 2.5% merit pool | 2.5% merit pool | 2.5% merit pool (anticipated) |

National Underground Railroad Freedom Center

The Cincinnati Museum Center and the National Underground Railroad Freedom Center (NURFC) are separate 501(c)(3) organizations. During the fiscal year that ended June 30, 2012, NURFC changed its governance structure and amended its Code of Regulations to make CMC the sole member of NURFC. Some of the key elements of this new governance and management structure, which was approved by both boards as a result of the merger, include the following.

- The NURFC board will continue in most of its governance responsibilities.
- The NURFC board members and officers will continue to be elected by the NURFC board.
- Some board members from the NURFC board also serve on CMC's board; three CMC board members will serve on the NURFC board. Each dual-appointment board member will be a full member of both boards and will fulfill the trustee expectations of each board.
- NURFC will be represented on the board of the Cincinnati Museums Foundation. Endowment funds given for the benefit of one of the museums will not benefit the others.
- The CEO and CFO of CMC serve in the same capacity for NURFC, as members of the board and the executive committee.
- The president of NURFC reports directly to CMC's CEO.

Both NURFC and CMC have put in place policies and structures to take advantage of the synergy of this relationship. For example, they have merged some departments—such as human resources, facilities management, and food services—to take advantage of cost savings. Since NURFC is not housed in Union Terminal, CMC has put controls in place to assure that no levy funds benefit NURFC, either directly or indirectly. Membership programs and development activities of the two organizations are separate, yet coordinated.

Debt Structure

CMC's current debt structure includes long-term bonds payable (expiring in May 2022) of \$3.34 million as of June 30, 2013 with no other significant balances outstanding as of this date. CMC currently has a line of credit available with a bank that allows CMC to borrow up to \$7 million. There is currently no balance on this line of credit and, therefore, represents the current borrowing capacity on existing debt. The line of credit is secured by CMC's investments, which significantly exceed current borrowing capacity. Additional borrowing capacity may be available if more assets are pledged.

Sources of Funding and Revenue and Expense Trends

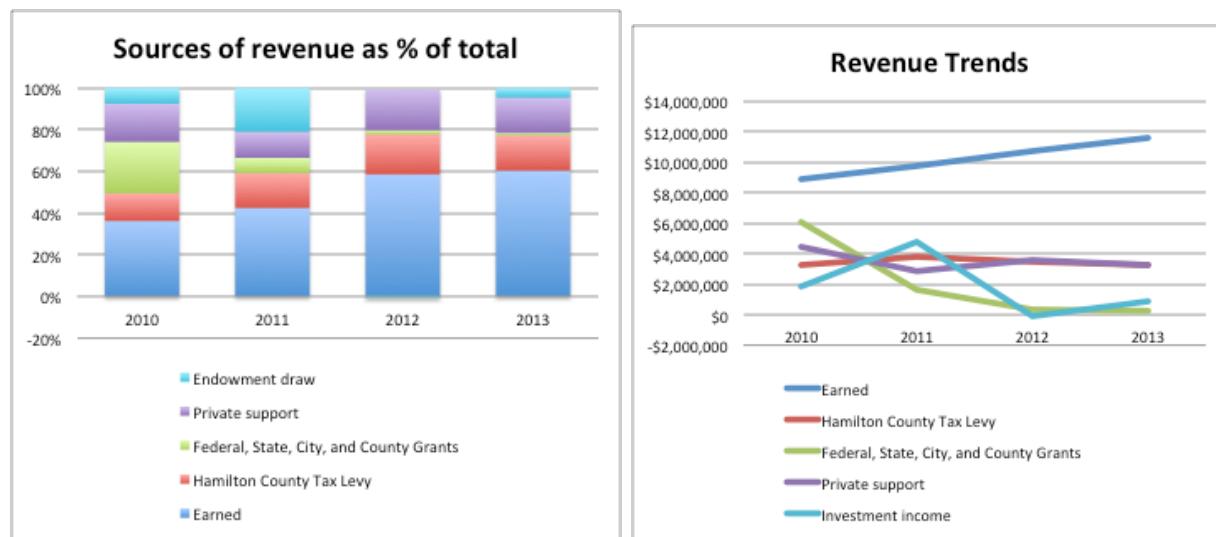
Sources of Revenue and Trends

Support has remained relatively stable for the four-year period, with the exception of a large capital improvements grant from the State of Ohio in 2010.

Table 6: Sources of Funding and Revenue (FYE June 30)

| Revenue | 2010 | 2011 | 2012 | 2013 |
|----------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Earned | \$8,862,906 | \$9,688,255 | \$10,715,755 | \$12,180,075 |
| Hamilton County Union Terminal Management Contract | 3,244,889 | 3,799,838 | 3,496,543 | 3,204,233 |
| Federal, State, City, and County Grants | 6,042,564 | 1,675,626 | 373,923 | 248,855 |
| Private Support | 4,480,366 | 2,851,048 | 3,571,237 | 3,664,203 |
| Investment Income | 1,848,098 | 4,812,791 | -139,352 | 1,495,582 |
| TOTAL Revenue | \$24,478,823 | \$22,827,558 | \$18,018,106 | \$20,792,948 |

| Revenue (% from each source) | 2010 | 2011 | 2012 | 2013 |
|-----------------------------------------|------|------|------|------|
| Earned | 36% | 42% | 59% | 59% |
| Hamilton County Tax Levy | 13% | 17% | 19% | 15% |
| Federal, State, City, and County Grants | 25% | 7% | 2% | 1% |
| Private Support | 18% | 12% | 20% | 18% |
| Investment Income | 8% | 21% | -1% | 7% |



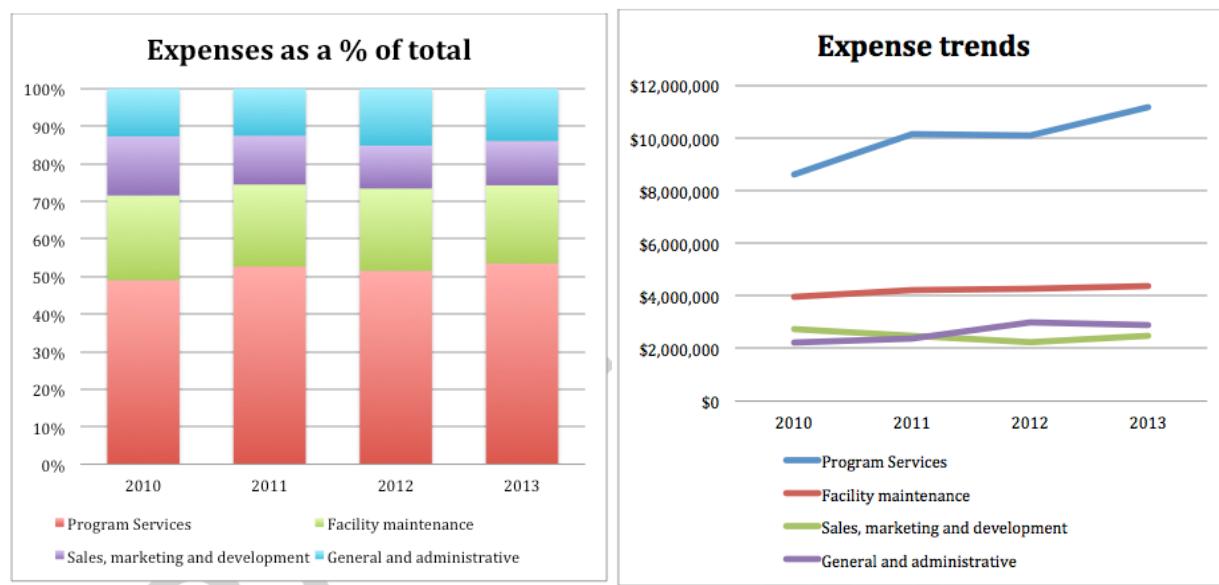
Major Expenses and Trends

Expenses have also remained stable over the four-year period, with a slight increase in the resources devoted to program services.

Table 7: Expenses (FYE June 30)

| Expenses | 2010 | 2011 | 2012 | 2013 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| Program Services | \$8,600,102 | \$10,158,372 | \$10,128,331 | \$11,200,606 |
| Facility Maintenance | 3,967,251 | 4,208,238 | 4,298,708 | 4,353,194 |
| Sales, Marketing and Development | 2,762,218 | 2,507,856 | 2,243,013 | 2,468,499 |
| General and Administrative | 2,220,784 | 2,403,492 | 2,971,703 | 2,952,051 |
| TOTAL Expenses | \$17,550,355 | \$19,277,958 | \$19,641,755 | \$20,974,350 |

| Expenses (% from each source) | 2010 | 2011 | 2012 | 2013 |
|----------------------------------|------|------|------|------|
| Program Services | 49% | 53% | 52% | 54% |
| Facility Maintenance | 23% | 22% | 22% | 21% |
| Sales, Marketing and Development | 16% | 13% | 11% | 12% |
| General and Administrative | 13% | 12% | 15% | 14% |



History and Spending of the Endowment

Like most institutional endowments, CMC's endowments suffered a precipitous decline with the market's downturn. In 2008, the funds were valued \$32.2 million; a planned endowment campaign was scaled back due to economic conditions compounded by the uncertainty caused by the changing allocation of public resources to the Union Terminal. Since then the endowments have grown steadily as a result of three factors:

- focused and intentional fundraising by CMC staff and trustees;
- a rebound in the investments; and

- moderation in the amount withdrawn to fund museum activities.

The balances below represent the balances of the endowment as of the fiscal year end (June 30). The principal balance of the endowment, for the purposes of the draw, consists of the beginning of the fiscal year balance of cash, cash equivalents, and investments. Distributions from perpetual trusts, charitable remainder trusts, and Greater Cincinnati Foundation are determined by third parties and not part of the endowment draw determined by the CMC Board of Trustees. Cash, cash equivalents and investment balances as of June 30, 2009 totaled \$17,698,627. Investment values at that date were temporarily depressed as a result of the "Great Recession," causing the draw percentage to temporarily rise.

| | 2010 | 2011 | 2012 | 2013 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Endowment required by TLRC | 18,000,000 | 21,000,000 | 24,000,000 | 27,000,000 |
| Actual CMC endowment ¹ | | | | |
| Investable assets under CMC control | 19,850,969 | 22,194,522 | 23,235,301 | 27,133,371 |
| Interest in trusts | 2,962,523 | 3,445,655 | 3,184,769 | 3,261,236 |
| Beneficial interest in GCF funds | 6,308,255 | 7,473,060 | 7,183,269 | 7,505,253 |
| Pledge receivable | 3,333,519 | 2,962,479 | 2,538,992 | 585,938 |
| Total actual CMC Endowment | 32,455,266 | 36,075,716 | 36,142,331 | 38,485,798 |
| Return on endowment: | | | | |
| Endowment draw controlled by CMC: | 922,887 | 912,691 | 954,516 | 1,018,811 |
| Percent of beginning balance | 5.21% | 4.60% | 4.30% | 4.38% |
| Revenues from assets held by others | 531,928 | 510,037 | 507,011 | 401,042 |

¹ For purposes of the levy contract, "endowment" is defined as "all funds that would be included as investments or as endowment under standards used nationally by non-profit organizations and shall include all cash, marketable securities, bonds, commercial paper and...documented pledges and planned giving arrangements..." CMC includes in its endowments beneficial interest in trusts and in funds held at the Greater Cincinnati Foundation, which they reported at the following amounts.

CMC's draws on the endowment have been close to the industry-wide best practice (4.5% of the endowments' total value averaged over the preceding twelve calendar quarters). During this period, endowment draws as a percentage of *all* assets (including trusts and GCF funds) have been slightly below this benchmark.

The resulting income has grown to represent approximately 5% of CMC's total budget, which is still far short of industry averages. Increasing the draw can be addressed only through continued growth in the endowments' principal through contributions (and, to a lesser extent, prudent investments).

In 2011, CMC formed the Cincinnati Museums Foundation to focus even greater resources on building and managing endowment assets. The sole member of the Foundation is the Cincinnati Museum Center, thus ensuring that these assets will always be used for the benefit of the Museum Center as defined by donors (which has included funding for the library, research positions, education programs, and NURFC).

Historic Financial Capacity of the Museum Center

The accounting department consists of Larry Sisk, CFO, and Joce Arvisais, Controller. Based on their qualifications, experience, and audit results of the most recent levy period, they have ample financial capacity. The finance department is currently looking for qualified candidates at the senior accountant level. The duties of this position are currently being allocated across the department, creating some staffing leverage issues.

C. Trend Analysis

This section includes the summary of CMC's revenues and expenses for the previous five years (for fiscal years ended June 30, 2009 through June 30, 2013) and projections for the next five years (through June 30, 2018). Actual revenue and expense amounts are based on CMC's audited financial statements through June 30, 2012. Amounts for the fiscal years ended June 30, 2013 are unaudited as of the date of this report, as the current financial statement audit is in progress.

Assumptions and other factors used in calculating projections are as follows.

- CMC has not internally developed a five-year financial forecast, mostly due to the significant amount of assumptions required for projecting revenues for contributions, grants, and special exhibit admissions and sales. These revenue sources have the most volatility. For the purposes of this report, revenue forecasts for these areas are mostly based on average expectations over the five-year period.
- The same methodology was applied to investment income projections, where the average projected investment income balances are conservatively based on the modest 4% endowment draw. Investment income projections were based on an annual return of 4% of all financial instruments as of June 30, 2013, which was approximately \$38.5 million.
- Other revenue and expense projections starting with the fiscal years ended June 30, 2014 were based on the average of the previous 5-year period along with straight-line projections, including planned inflationary standards published by the Bureau of Labor Statistics (3% inflation).
- Budget items unique for the year ended June 30, 2014:
 - CMC budgeted for a \$4.1 million bequest expected during the year ended June 30, 2014;
 - CMC also budgeted for additional transition costs of \$95,000 for the year ended June 30, 2014.
- Tax Levy revenues for the next levy period are assumed to be used for operational costs associated with insurance, utilities, and maintenance of Union Terminal as described in the previous agreement and amendments, as well as for emergency repairs.
- There may be excess revenues over expenditures forecast in other CMC operational areas; this excess represents an opportunity for CMC to adjust operational levels to meet demand. Conversely, it is expected that, should these revenue estimates fall short, CMC will adjust expenditures accordingly to ensure that CMC does not operate at a deficit.

Table 9: Five-Year Revenue Forecast (FYE June 30)

| DESCRIPTION | (Unaudited) | | | | | 5-YEAR AVERAGE | FORECASTED RESULTS | | | | | |
|---------------------------------------------------------|----------------|-------------|-------------|------------|-------------|----------------|--------------------|-------------|-------------|-------------|-------------|--|
| | ACTUAL RESULTS | | | | | | 2014 | 2015 | 2016 | 2017 | 2018 | |
| | 2009 | 2010 | 2011 | 2012 | 2013 | | | | | | | |
| SUPPORT: | | | | | | | | | | | | |
| Hamilton County Tax Levy | 4,273,131 | 3,244,889 | 3,799,838 | 3,496,543 | 3,204,233 | 3,603,727 | 3,012,000 | 3,049,000 | 3,060,000 | 3,070,000 | 3,081,000 | |
| Contributions | 7,061,617 | 4,480,366 | 2,851,048 | 3,571,237 | 4,798,163 | 4,552,486 | 4,689,000 | 4,830,000 | 4,975,000 | 5,124,000 | 5,278,000 | |
| Grants | 880,203 | 6,042,564 | 1,675,626 | 373,923 | 248,855 | 1,844,234 | 1,900,000 | 1,957,000 | 2,016,000 | 2,076,000 | 2,138,000 | |
| Total support | 12,214,951 | 13,767,819 | 8,326,512 | 7,441,703 | 8,251,251 | 10,000,447 | 9,601,000 | 9,836,000 | 10,051,000 | 10,270,000 | 10,497,000 | |
| EARNED REVENUE: | | | | | | | | | | | | |
| Admissions - Museum | 1,506,549 | 1,694,610 | 1,529,792 | 1,790,841 | 1,535,144 | 1,611,387 | 1,660,000 | 1,710,000 | 1,761,000 | 1,814,000 | 1,868,000 | |
| Admissions - Special Exhibits | 3,276,521 | 596,527 | 1,455,094 | 1,935,857 | 2,935,583 | 2,039,916 | 2,101,000 | 2,164,000 | 2,229,000 | 2,296,000 | 2,365,000 | |
| Admissions - OMNIMAX Theater | 1,321,959 | 1,189,882 | 1,280,525 | 1,157,175 | 998,748 | 1,189,658 | 1,225,000 | 1,262,000 | 1,300,000 | 1,339,000 | 1,379,000 | |
| Memberships | 1,655,500 | 1,760,632 | 1,764,705 | 1,933,471 | 1,980,182 | 1,818,898 | 1,873,000 | 1,929,000 | 1,987,000 | 2,047,000 | 2,108,000 | |
| Total admissions and memberships | 7,760,529 | 5,241,651 | 6,030,116 | 6,817,344 | 7,449,657 | 6,659,859 | 6,859,000 | 7,065,000 | 7,277,000 | 7,496,000 | 7,720,000 | |
| CMC exhibit sales | 1,106,388 | 560,697 | 435,793 | 556,987 | 541,052 | 640,183 | 659,000 | 679,000 | 699,000 | 720,000 | 742,000 | |
| Parking | 955,888 | 887,110 | 982,742 | 1,091,499 | 1,090,060 | 1,001,460 | 1,032,000 | 1,063,000 | 1,095,000 | 1,128,000 | 1,162,000 | |
| Retail (food service, catering, and gift shop) | 1,600,869 | 1,108,972 | 1,012,740 | 1,282,310 | 1,377,053 | 1,276,389 | 1,315,000 | 1,354,000 | 1,395,000 | 1,437,000 | 1,480,000 | |
| Program fees and other revenue | 737,616 | 1,064,476 | 1,226,864 | 967,615 | 1,722,253 | 1,143,765 | 1,178,000 | 1,213,000 | 1,249,000 | 1,286,000 | 1,325,000 | |
| Total earned revenue | 12,161,290 | 8,862,906 | 9,688,255 | 10,715,755 | 12,180,075 | 10,721,656 | 11,043,000 | 11,374,000 | 11,715,000 | 12,067,000 | 12,429,000 | |
| INVESTMENT INCOME: | | | | | | | | | | | | |
| Interest and dividends | 451,889 | 418,345 | 552,591 | 640,495 | 515,000 | 515,664 | 515,000 | 530,000 | 546,000 | 562,000 | 579,000 | |
| Realized gains (losses) on investments | (4,626,784) | 1,429,753 | 4,260,200 | (780,027) | 980,582 | 252,745 | 1,001,000 | 1,031,000 | 1,062,000 | 1,094,000 | 1,127,000 | |
| Total investment income | (4,174,895) | 1,848,098 | 4,812,791 | (139,532) | 1,495,582 | 768,409 | 1,516,000 | 1,561,000 | 1,608,000 | 1,656,000 | 1,706,000 | |
| TOTAL REVENUE AND SUPPORT | 20,201,346 | 24,478,823 | 22,827,558 | 18,017,926 | 21,926,908 | 21,490,512 | 22,160,000 | 22,771,000 | 23,374,000 | 23,993,000 | 24,632,000 | |
| SUBSTITUTION OF ENDOWMENT DRAW FOR INVESTMENT INCOME: | | | | | | | | | | | | |
| Less: investment income | 4,174,895 | (1,848,098) | (4,812,791) | 139,532 | (1,495,582) | (768,409) | (1,516,000) | (1,561,000) | (1,608,000) | (1,656,000) | (1,706,000) | |
| Add: investment/endowment draw | 1,217,192 | 922,887 | 912,691 | 954,516 | 1,018,811 | 1,005,219 | 1,035,000 | 1,066,000 | 1,098,000 | 1,131,000 | 1,165,000 | |
| TOTAL REVENUE AND SUPPORT, INCLUDING ENDOWMENT DRAW | 25,593,433 | 23,553,612 | 18,927,458 | 19,111,974 | 21,450,137 | 21,727,322 | 21,679,000 | 22,276,000 | 22,864,000 | 23,468,000 | 24,091,000 | |
| ENDOWMENT DRAW AT 5% | 978,544 | 884,931 | 992,548 | 1,109,726 | 1,161,765 | 1,025,503 | 1,056,000 | 1,056,000 | 1,056,000 | 1,056,000 | 1,056,000 | |
| TOTAL REVENUE AND SUPPORT, ASSUMING A 5% ENDOWMENT DRAW | 25,354,785 | 23,515,656 | 19,007,315 | 19,267,184 | 21,593,091 | 21,747,606 | 21,700,000 | 22,266,000 | 22,822,000 | 23,393,000 | 23,982,000 | |

Table 10: Five-Year Expense Forecast (FYE June 30)

| DESCRIPTION | (Unaudited) | | | | | 5-YEAR AVERAGE | FORECASTED RESULTS | | | | |
|-----------------------------------|-------------|------------|------------|-------------|------------|----------------|--------------------|------------|------------|------------|------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | | 2014 | 2015 | 2016 | 2017 | 2018 |
| PROGRAM EXPENSES: | | | | | | | | | | | |
| Programs and exhibits | 7,762,042 | 5,824,853 | 7,571,345 | 7,843,370 | 9,139,177 | 7,628,157 | 7,857,000 | 8,093,000 | 8,336,000 | 8,586,000 | 8,844,000 |
| OMNIMAX® theater | 1,096,407 | 1,136,352 | 1,228,248 | 1,067,797 | 974,006 | 1,100,562 | 1,134,000 | 1,168,000 | 1,203,000 | 1,239,000 | 1,276,000 |
| Library, research and collections | 1,689,037 | 1,638,897 | 1,358,779 | 1,217,164 | 1,087,423 | 1,398,260 | 1,440,000 | 1,483,000 | 1,527,000 | 1,573,000 | 1,620,000 |
| Total program expenses | 10,547,486 | 8,600,102 | 10,158,372 | 10,128,331 | 11,200,606 | 10,126,979 | 10,431,000 | 10,744,000 | 11,066,000 | 11,398,000 | 11,740,000 |
| SUPPORT SERVICES EXPENSES: | | | | | | | | | | | |
| Facility maintenance | 4,125,333 | 3,967,251 | 4,208,238 | 4,298,708 | 4,353,194 | 4,190,545 | 4,316,000 | 4,445,000 | 4,578,000 | 4,715,000 | 4,856,000 |
| Sales and marketing | 3,229,349 | 2,762,218 | 2,507,856 | 2,243,013 | 2,468,499 | 2,642,187 | 2,721,000 | 2,803,000 | 2,887,000 | 2,974,000 | 3,063,000 |
| General and administrative | 2,409,802 | 2,220,784 | 2,403,492 | 2,971,703 | 2,952,051 | 2,591,566 | 2,669,000 | 2,749,000 | 2,831,000 | 2,916,000 | 3,003,000 |
| Total support services expenses | 9,764,484 | 8,950,253 | 9,119,586 | 9,513,424 | 9,773,744 | 9,424,298 | 9,706,000 | 9,997,000 | 10,296,000 | 10,605,000 | 10,922,000 |
| Total expenses | 20,311,970 | 17,550,355 | 19,277,958 | 19,641,755 | 20,974,350 | 19,551,277 | 20,137,000 | 20,741,000 | 21,362,000 | 22,003,000 | 22,662,000 |
| CHANGES IN NET ASSETS | (110,624) | 6,928,468 | 3,549,600 | (1,623,829) | 952,558 | 1,939,235 | 2,023,000 | 2,030,000 | 2,012,000 | 1,990,000 | 1,970,000 |

Task 3: Comparative Analysis

Method & Approach for Comparative Analysis

The Cincinnati Museum Center houses a library, a natural history research program, three individual museums, and an OMNIMAX® Theater—focused on children, natural history and science, and history audiences. This aggregation makes CMC one of a select few organizations nationwide to operate multiple entities on one site; the other organizations with multiple entities at one location do not all serve the same audiences as CMC.

Therefore, to compare admission and membership prices, Benefactor Group obtained data from discreet institutional peers that primarily serve one of the three audiences served by CMC. (The organizations we selected for comparison are the same as those reviewed in the Performance Evaluation Report in 2009.) Admission and membership data were obtained from each institution's website during September 2013. For CMC, admission and membership prices listed in the matrix in 3B are the prices that grant access to all three museums at CMC through one ticket or one membership.

The comparative analysis of special programs is an inventory of visiting or special exhibits presented by CMC and three peer institutions, one from each museum type represented at CMC. Four projects were selected as samples from each institution. Data were collected on each institution's special projects through annual reports, newsletters, phone conversations, and website descriptions of the projects.

The American Alliance of Museums (AAM) provides an online benchmarking database and tool to member organizations, including CMC. This database contains AAM-verified information self-reported by member museums annually. For 3C, this benchmarking tool was used to compare the ratios of public/government, private, earned, and investment/endowment revenue sources of all AAM-accredited museums in the database with operating expenses between \$5,000,000 and \$40,000,000.

A. Admission and Membership Costs

Cincinnati Museum Center's combination of a children's museum, history museum, museum of natural history and science, OMNIMAX® Theater, library, and research center provides patrons the opportunity to attend all three for one admission price. The presence of multiple attractions creates a unique challenge in tracking visitors who purchase a combination ticket. CMC wanted to gain a better understanding of visitors' patterns as they visit one, two, or more of the attractions, etc. to inform institutional planning. After exploring a variety of visitor information systems, CMC selected and implemented Siriusware—a system that has been successfully adapted to a variety of settings, including multi-attraction museums.

In comparison to discreet institutions focused on just one of the museum types, the combination of these museums on one site has added value for visitors. CMC visitors may choose to attend one museum of their choice for \$8.50. CMC's price for admission to attend *all three museums* is:

- only slightly above the average cost of admission to peer children's museums and history museums; and
- less than natural history and science museums.

Similarly, membership costs to attend *all three museums* are:

- only slightly above the average cost of membership to children's museums and history museums; and
- less than natural history and science museums.

Table 11: Admission and Membership Costs

Children's Museums

| | Cincinnati Museum Center (3 Museums) | Boston Children's Museum | Children's Museum of Cleveland | Denver Children's Museum | Children's Museum of Indianapolis | Minnesota Children's Museum | Children's Museum of Pittsburgh | The Magic House - St. Louis Children's Museum | AVERAGE of COMPARISONS |
|-----------------------------------|-----------------------------------------|--------------------------|--------------------------------|--------------------------|-----------------------------------|-----------------------------|---------------------------------|-----------------------------------------------|------------------------|
| Location | Cincinnati, OH | Boston, MA | Cleveland, OH | Denver, CO | Indianapolis, IN | Minneapolis/St. Paul, MN | Pittsburgh, PA | St. Louis, MO | |
| Admission & Membership | | | | | | | | | |
| Admission Levels | | | | | | | | | |
| Adult | \$12.50 | \$14.00 | \$7.00 | \$7.50 | \$18.50 | \$9.50 | \$13.00 | \$9.50 | \$11.29 |
| Child | \$8.50 | \$14.00 | \$7.00 | \$7.50 | \$13.50 | \$9.50 | \$12.00 | \$9.50 | \$10.43 |
| Senior | \$11.50 | \$14.00 | \$7.00 | \$5.50 | \$17.50 | \$9.50 | \$12.00 | \$9.50 | \$10.71 |
| Parking | \$6.00 | No parking provided | \$0.00 | \$0.00 | \$0.00 | \$4.00 | \$5.00 | \$0.00 | \$3.75 |
| Membership Levels | | | | | | | | | |
| Family | \$130.00 | \$150.00 | \$90.00 | \$100.00 | \$145.00 | \$95.00 | \$115.00 | \$150.00 | \$120.71 |
| Member Parking | \$0.00 | No parking provided | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$3.00 | \$0.00 | \$0.75 |

History Museums

| | Cincinnati Museum Center (3 Museums) | Western Reserve Historical Society | History Colorado Center | Conner Prairie | Minnesota Historical Center | Heinz History Center | AVERAGE of COMPARISONS |
|-----------------------------------|-----------------------------------------|------------------------------------|-------------------------|------------------|-----------------------------|----------------------|------------------------|
| Location | Cincinnati, OH | Cleveland, OH | Denver, CO | Indianapolis, IN | Minneapolis/St. Paul, MN | Pittsburgh, PA | |
| Admission & Membership | | | | | | | |
| Admission Levels | | | | | | | |
| Adult | \$12.50 | \$10.00 | \$10.00 | \$15.00 | \$11.00 | \$15.00 | \$12.20 |
| Child | \$8.50 | \$5.00 | \$6.00 | \$10.00 | \$6.00 | \$6.00 | \$6.60 |
| Senior | \$11.50 | \$9.00 | \$8.00 | \$14.00 | \$9.00 | \$13.00 | \$10.60 |
| Parking | \$6.00 | \$5.00 | No parking provided | \$0.00 | \$5.00 | \$10.00 | \$5.20 |
| Membership Levels | | | | | | | |
| Individual | \$55.00 | \$50.00 | \$65.00 | \$60.00 | \$50.00 | \$60.00 | \$57.00 |
| Family | \$130.00 | \$70.00 | \$80.00 | \$80.00 | \$75.00 | \$85.00 | \$78.00 |
| Member Parking | \$0.00 | \$5.00 | No parking provided | \$0.00 | \$3.00 | \$4.00 | \$2.40 |

Natural History and Science Museums

| | Cincinnati Museum Center (3 Museums) | Museum of Science | Great Lakes Science Center | Cleveland Museum of Natural History | Denver Museum of Nature and Science | Science Museum of Minnesota | Carnegie Museum of Natural History | Carnegie Science Center | AVERAGE of COMPARISONS |
|-----------------------------------|-----------------------------------------|-------------------|----------------------------|-------------------------------------|-------------------------------------|-----------------------------|------------------------------------|-------------------------|------------------------|
| Location | Cincinnati, OH | Boston, MA | Cleveland, OH | Cleveland, OH | Denver, CO | Minneapolis/St. Paul, MN | Pittsburgh, PA | Pittsburgh, PA | |
| Admission & Membership | | | | | | | | | |
| Admission Levels | | | | | | | | | |
| Adult | \$12.50 | \$23.00 | \$14.00 | \$12.00 | \$13.00 | \$13.00 | \$17.95 | \$17.95 | \$17.63 |
| Child | \$8.50 | \$20.00 | \$12.00 | \$10.00 | \$8.00 | \$10.00 | \$11.95 | \$11.95 | \$13.20 |
| Senior | \$11.50 | \$21.00 | \$14.00 | \$10.00 | \$10.00 | \$10.00 | \$14.95 | \$17.95 | \$15.63 |
| Parking | \$6.00 | \$9.75 | \$7.00 | \$6.00 | \$0.00 | \$7.00 | \$4.00 | \$5.00 | \$5.59 |
| Membership Levels | | | | | | | | | |
| Individual | \$55.00 | \$85.00 | \$90.00 | \$55.00 | \$50.00 | \$69.00 | \$75.00 | \$75.00 | \$79.14 |

B. Inventory Sample of Special Programs

Special programs and exhibits are important to any museum because they help keep the visitor experience fresh, give varied expression to mission, and drive earned income. For purposes of this analysis we have considered CMC's schedule of short-term traveling exhibits and the associated public programs, as well as other one-time or short-term public programs.

CMC has aggressively scheduled and promoted exhibitions in order to raise awareness and expose the casual visitor to all the activities in Union Terminal. These special programs have helped provide new and fresh experiences for repeat visitors, and have utilized the expansive Union Terminal creatively.

CMC has a robust calendar of blockbuster exhibits, such as "A Day in Pompeii," to compliment a well-balanced variety of programs and exhibitions that appeal to niche audiences and local interests and/or support the educational mission. With its balanced programming, the attendance and earned revenue strategies in use appear to provide appropriate levels of activity without creating over-reliance on blockbuster exhibits.

Cincinnati Museum Center has complemented its permanent exhibits with a robust calendar of "blockbuster" traveling exhibits, OMNIMAX® films, and educational programs. The return on CMC's substantial investment in these special programs can be measured in several ways.

- Special exhibitions and programs are aligned with CMC's mission to inspire people of all ages to learn more about the world through...meaningful experiences.
- The revenue produced by special exhibits has exceeded cost, although the net revenue from the large screen films (i.e., OMNIMAX®) has declined and should be monitored closely.
- CMC has an opportunity to capture new members and new audiences for its ongoing activities.
- The special programs provide opportunities for local and regional audiences to gain new insights into a variety of topics—often topics that are tied to specific educational objectives of area schools.
- Visiting exhibits and programs raise the profile of the institution among its peers nationally.

However, special programs must be balanced with a focus on the permanent exhibits and local programming so an institution does not become overly dependent on the episodic financial and attendance boost provided by these expensive—and sometimes risky—ventures. Despite these risks, special programs provide the best opportunity to offer new visitor experiences until the overall issues of the building are addressed and the museums' permanent displays can be refreshed. CMC appears to have achieved an appropriate balance, as displayed in the chart below.

Table 12: Inventory Sample of Special Programs

| Cincinnati Museum Center | | Science Museum of Minnesota | | Heinz History Center | | The Magic House - St. Louis Children's Museum | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Cincinnati, OH | | Minneapolis, MN | | Pittsburgh, PA | | St. Louis, MO | |
| Special Projects | | | | | | | |
| Special Project 1 | | African Americans in Science event | | America's Best Weekly: A Century of The Pittsburgh Courier | | Children's Village Pet Clinic | |
| <p>A Day in Pompeii Exhibition</p> <p>"Through more than 250 priceless artifacts, the exhibition tells the story of several aspects of life in Pompeii as it was before time stopped. Thirteen wall-sized frescos, gold coins and jewelry, marble and bronze statuary join body casts of the volcano's victims, eerily preserved in their final moments. A time-lapsed multimedia room recreates the sights, sounds and then the silence of the city's final 24 hours." - CMC Mosaic newsletter, Spring 2012</p> | | <p>African Americans in Science event</p> <p>"What does a cytogeneticist do? What's electrical stimulation therapy? Visitors to the 20th annual African Americans in Science found out at this inspiring event sponsored by Donaldson Company, Inc., where local science professionals shared their passion for everything from asthma inhalers to stop-motion animation and pneumatics." - SMM Annual Report, 2011-2012</p> | | <p>America's Best Weekly: A Century of The Pittsburgh Courier</p> <p>"In commemoration of The Pittsburgh Courier's 100th Anniversary, the History Center explored the newspaper's reach and impact throughout the nation over the past century. Through a number of photographs, artifacts, and audio-visual displays, America's Best Weekly: A Century of The Pittsburgh Courier profiled the major contributors who propelled the Courier from a 1907 start-up publication to the most influential African American newspapers in the country." - Heinz History Center website, Exhibits, Past, occurring in 2012</p> | | <p>Children's Village Pet Clinic</p> <p>"The Magic House really went to the dogs—and to the cats and hamsters, too—with a new spot in the Children's Village. In March, the fur was flying when the Museum opened the Pet Clinic. This new venue invites children to dress up in lab coats and scrubs and become veterinarians as they bandage, weigh, x-ray, groom and take care of their four-legged patients. Generously sponsored by ZhuZhu Pets, TM the Pet Clinic features two exam rooms, a grooming center, an office, kennels and a hamster habitat. The APA brought their Homeward Bound mobile adoption unit with real animals—and tails wagged when one dog found a forever home." - The Magic Center Annual Report, 2012</p> | |
| Special Project 2 | | To The Arctic OMNIMAX Film | | Omnifest | | Stars & Stripes: An American Story | |
| <p>To The Arctic OMNIMAX Film</p> <p>"To The Arctic" shows the stunning beauty and majesty of the wildlife and environment of the Arctic Circle. People, animals and sea creatures thrive on this icy world of glaciers; however, their snowy paradise is facing dramatic changes that threaten to disrupt this delicate balance of life. Join us on an extraordinary journey to the top of the world in this brand new film. With our five-story domed screen and state-of-the-art surround system, you feel like you're really there--without the below-zero-degree temperatures!" - CMC Mosaic newsletter, Summer 2012</p> | | <p>Omnifest</p> <p>"Omni-lovers settled in for a month of giant-screen awesomeness during Omnistfest, our annual larger-than-life film festival, sponsored by U.S. Bank. The Omnistfest 2012 lineup was packed with five of our most-requested "fan favorites," including Shackleton's Antarctic Adventure, one of the most talked-about films ever shown in the Omnitheater." - SMM Annual Report, 2011-2012</p> | | <p>Stars & Stripes: An American Story</p> <p>"Stars & Stripes: An American Story, sponsored by BNY Mellon, details the stories of the people behind the more than 200 year history of our nation's most enduring symbol. The 7,000 square foot exhibit, which was developed by History Center museum staff in conjunction with Dr. Peter Keim and historians including Marc Leepson, includes objects, images, and archival materials from the History Center's collections, as well as items on loan from the Smithsonian Institution, The Warhol Museum, The National Gallery of Art, and private collectors. Beginning with the nation's first flag, Stars & Stripes: An American Story helps unravel the myths and reality surrounding its creation, including the mythical story of Betsy Ross developing the first American flag. In addition to Ross, the exhibit reveals the stories of Americans who have influenced the flag's legacy." - Heinz History Center website, Exhibits, Past, occurring in 2012</p> | | <p>St. Louis Rams Training Center</p> <p>"The Magic House added another new exhibit to the roster with the St. Louis Rams Training Center. The Museum teamed up with the local NFL squad to create a fitness exhibit that scored big with kids. The St. Louis Rams Training Center stretches visitors' muscles as well as their minds with activity stations that build all the skills athletes need on the playing field and the playground: agility, balance, endurance, flexibility, strength and velocity. A highlight of the exhibit is a state-of-the-art football simulator, where kids can kick field goals through the on-screen uprights and see their stats displayed on a scoreboard. Suited up in team colors of blue and gold, the St. Louis Rams Training Center also features a locker room displaying real Rams equipment, an official uniform and snacks that players use to fuel up before a big game." - The Magic Center Annual Report, 2012</p> | |

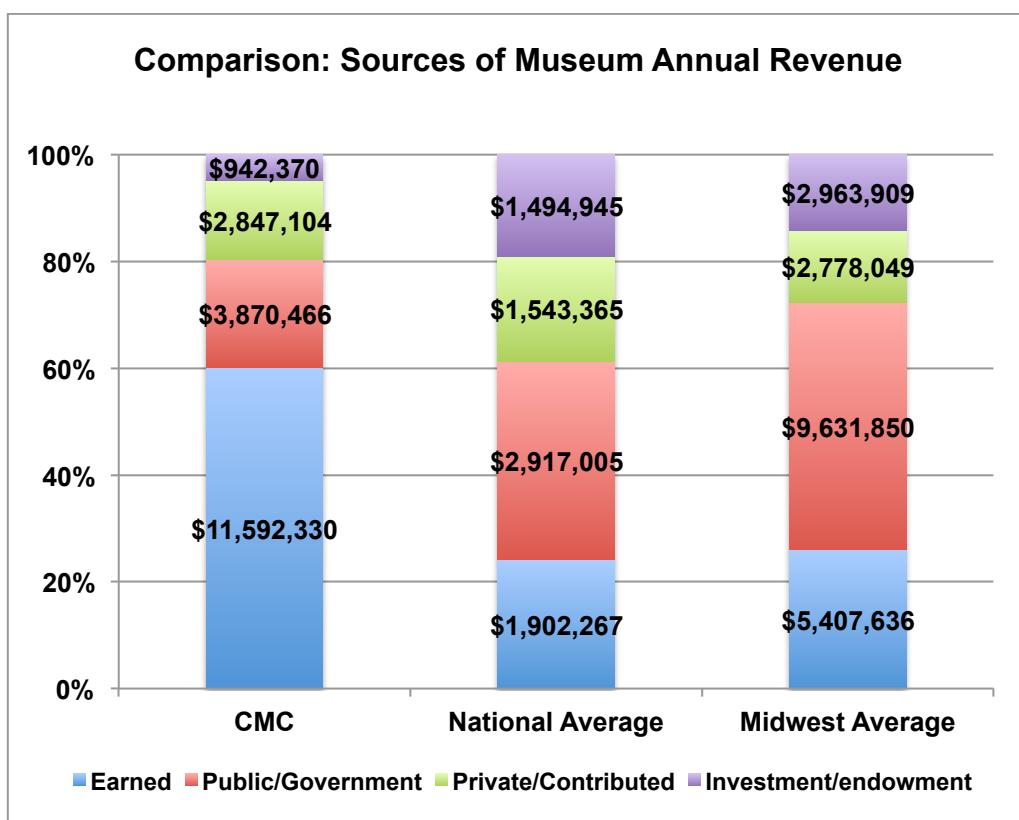
| Cincinnati Museum Center | Science Museum of Minnesota | Heinz History Center | The Magic House - St. Louis Children's Museum | |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Special Project 3 | Dead Sea Scrolls | Real Pirates: The Untold Story of the Whydah from Slave Ship to Pirate Ship | A Bedrock of Faith: Presbyterian Pioneers in Western Pennsylvania | The Art of the Brick® |
| | "This once-in-a-lifetime exhibition features more than 600 objects from the Biblical to Byzantine Period in Israel; times that shaped western culture and gave rise to Judaism, Christianity and eventually, Islam. These artifacts, along with special programming in our museums, give you an unparalleled look at what everyday life was like thousands of years ago in Israel and immerse you in the archaeology, religion and faith of these ancient times." - CMC Mosaic newsletter, Winter 2012 | "It was a swashbucklin' night o' fun at the opening of Real Pirates: The Untold Story of the Whydah from Slave Ship to Pirate Ship. These lucky landlubbers saw authentic pirate booty, met actors portraying crew members, and explored underwater archaeology in this National Geographic exhibition." - SMM Annual Report, 2011-2012 | "To coincide with the General Assembly of the Presbyterian Church annual meeting in Pittsburgh, the History Center hosted a new exhibit created by the Presbyterian History Committee of the Pittsburgh Presbytery. A Bedrock of Faith: Presbyterian Pioneers in Western Pennsylvania explored 10 Presbyterian churches in the region, including Sewickley Presbyterian, Beulah, Bethel, Grace, First, Shadyside, Middle, Chartiers Hill, and Service, as well as Hicks Chapel at the Pittsburgh Theological Seminary. The exhibit also featured four cases with religious objects and an accompanying video." - Heinz History Center website, Exhibits, Past, occurring in 2012 | "In the fall of 2012, visitors followed the yellow brick road all the way to The Magic House—LEGO® bricks, that is! The Museum hosted The Art of the Brick, a one-of-a-kind art exhibition featuring more than 30 large sculptures created by New York artist Nathan Sawaya and made from one million LEGO pieces. Hailed by CNN as one of the top 12 "must-see exhibitions in the world," The Art of the Brick thrilled more than 170,000 visitors during the four-month showing with its larger-than-life LEGO models." - The Magic Center Annual Report, 2012 |
| Special Project 4 | BatFest event | Girls in Science event | Gridiron Glory: The Best of the Pro Football Hall of Fame | Sandcastle Beach |
| | "BatFest continues to be a family favorite among Museum Center visitors. This year's BatFest feature's a children's book author, local bat enthusiasts and organizations, an expert from the Fish & Wildlife Services to discuss white noise syndrome, an amazing 106-foot Rotunda climb by Greater Cincinnati Grotto members, a tasting of food pollinated by bats, the popular costume parade and more." - CMC Mosaic newsletter, Fall 2012 | "Where else can you try your hand at counterfeit detection, a TV weathercast, and a robotic challenge? It's Fox 9's annual Girls in Science event. Nearly 6,000 visitors—including many Girl Scouts—packed the museum for this fun, hands-on extravaganza that showcases exciting science careers." - SMM Annual Report, 2011-2012 | "Gridiron Glory: The Best of the Pro Football Hall of Fame was a major exhibition focusing on the history of pro football, from its humble beginnings in 1892 to its rise as one of the world's most beloved sports. The blockbuster exhibition made its national premiere at the History Center in the fall of 2012 before embarking on a nationwide traveling tour. The Pittsburgh exhibition was made possible by Highmark, the presenting sponsor." - Heinz History Center website, Exhibits, Past, occurring in 2012 | "The Magic House went back to the beach with a "sandsational" encore of the favorite summertime exhibit, Sandcastle Beach, sponsored by Prairie Farms Dairy and North Star Frozen Treats. World-champion sand sculptor Dan Belcher created a sweet 75-ton structure inspired by the classic children's game Candy Land. In June, the Museum's Grand Committee hosted the Grand Candy Ball, a very special intergenerational evening in celebration of the exhibit, which raised more than \$31,000 for the Grandparents' Scholarship Fund." - The Magic Center Annual Report, 2012 |

C. Comparative Financial Mix

Cincinnati Museum Center relies on a variety of revenue sources to fund **operations**. This mix includes four primary sources:

- earned revenue (from admissions; food, parking, and retail operations; exhibit sponsorships; program fees; and memberships);
- philanthropic/private contributions (from individuals, foundations, and corporations);
- a draw on the growth of its endowment (interest and capital gains); and
- public/government funds.

CMC has more than three times the **earned income** (as a percentage of budget) of AAM's "average museum" according to data provided by AAM. Sustained earned income is important to the fundamental viability of the CMC organization. It also delivers the value expected by private donors and public funders. The organization's greatest potential for future revenue growth, however, may be more likely to come from increased contributed revenue and prudent draws on an increased endowment.



The mix of funding sources for **capital** projects varies greatly and depends on each institution's unique circumstances.

In 2012, 21% of museums reporting to AAM were engaged in capital campaigns, with a median goal of \$7.1 million—a decrease in both the percentage of museums and median goals from the previous benchmarking report in 2009 (24% and \$10 million respectively). Campaign goals vary widely according to a museum's discipline or location, with art museums and Mid-Atlantic institutions reporting the highest goals, according to the 2009 benchmarking report. Private

nonprofit museums were more likely to be engaged in capital campaigns (26%) than were those in the public (government) sector (17%). Capital campaign activity was also more frequent in older museums (31% of those founded prior to 1940) versus newer institutions (just 15% of museums founded after 1982 were engaged in a campaign).

A museum's capacity to raise capital funds through private contributions is dependent upon several variables. In most instances, a handful of very large gifts accounts for half (or more) of a campaign goal, so the museum must have cultivated relationships with the high-net-worth individuals, corporations, or foundations with the capacity to provide these large gifts. Beyond these "leadership" gifts, the amount of individuals' charitable support for the community's Arts, Culture and Humanities can be estimated using census data and Giving USA research, as follows:

Table 13: Individual Giving Data in Hamilton County

| Data point | Source | Amount |
|----------------------------------------------------------------------------------------------|-----------------|------------------|
| A. Hamilton County Population | Census.gov | 802,038 |
| B. Hamilton County households | Census.gov | 325,766 |
| C. Median household income | Census.gov | \$49,218 |
| D. Total household income | B x C | \$16,033,550,988 |
| E. Charitable giving as a % of household income | Giving USA 2013 | 2.0% |
| F. Hamilton County's charitable giving potential | D x E | \$320,671,019 |
| G. Giving to Arts, Culture and Humanities as a % of all charitable giving | Giving USA 2013 | 5% |
| H. Hamilton County's individual charitable giving potential for Arts, Culture and Humanities | F x G | \$16,033,550 |

(Note: individuals account for 72% of all charitable giving in the U.S.)

Public funds are incorporated into museum capital projects in several ways:

- voter support of a levy or bond issue;
- tax-credit funds (for institutions that qualify);
- quasi-public funding organizations such as arts commissions (which, it turn, are often funded through special taxes or assessments);
- episodic competitive grants.

In Ohio, Franklin County and Montgomery County provide competitive grants to support arts and cultural institutions through "community partnerships" or "community and economic affairs" departmental budgets.

In most instances, capital support—whether public funds or private contributions—is secured almost entirely from local or regional sources. Few federal funds are available anymore, and national foundations rarely support capital projects outside their immediate vicinity.

Task 4: Evaluation of Fiscal Sustainability

A. Review historical materials related to changes in Union Terminal ownership and provide an analysis of the building's current ownership and associated responsibilities.

Hamilton County has provided documents from the 1986 lease agreement with the Union Terminal Association which indicate the following:

- “City [of Cincinnati] is the owner of certain real property...commonly known as the Cincinnati Union Terminal...” and that
- “The County shall be solely and exclusively responsible for ...the construction, remodeling and renovation of the center for the Museum Center.

B-D. Review and analyze CMC’s strategic plan; determine services and activities consistent with fiscal sustainability; analyze actions to generate additional revenue.

Cincinnati Museum Center engaged in multiple comprehensive planning processes. CMC began with a Strategic Master Plan produced with Lord Cultural Resources in 2006 and an exhaustive assessment of the facility by Preservation Design Partnership and Glaserworks, which resulted in a Renovation and Restoration Master Plan (2007) and a Vision Master Plan (refreshed in 2009). The resulting documents provided guidance as CMC refined its operations, attracted earned and contributed revenue, and prioritized building maintenance and renovation. They helped CMC navigate a period of economic turmoil and uncertainty.

The institution’s leaders have deferred further planning until a key question can be resolved:

How will the restoration and renovation of Union Terminal be funded, and when?

The leaders of CMC consider this unresolved question a “log jam” that stymies planning—even programmatic and exhibit planning. So long as the renovation and restoration of Union Terminal is unresolved, they assert that:

- CMC must devote the current levy proceeds to deferred maintenance and temporary repairs to the building; curtailing their capacity to allocate other funds that might otherwise be devoted to programs or exhibits;
- bold strategic directions that maximize the utilization of Union Terminal, such as the consideration of a science museum model, cannot be implemented;
- funding strategies such as tax credits cannot be pursued; and
- many donors will be reluctant to make substantial gifts to an endowment whose purpose will be unclear. Their potential support of a capital campaign—whether to restore Union Terminal, or create a dynamic science museum—will likely be contingent upon a clear demonstration of complementary public sector funding for the building.

A museum’s sustainability is dependent on multiple factors. In addition to financial sustainability, a museum depends on strong leadership (executive and board governance) with a suitable succession plan in place; it provides relevant programs that serve the social and educational needs of the communities it serves; and it is guided by a mission, vision, and strategic plan that provide a context for all programs and activities.

The current situation—with CMC operating four cultural institutions in the Union Terminal—may be adequately sustained financially with a continuation of the current levy support, although CMC will continue to be vulnerable to economic conditions until the urgent and substantial needs of the facility are addressed and/or a much larger endowment is developed.

E. Present a matrix of options available to move CMC toward fiscal sustainability (looking at both increased revenue and decreased expenditure options) under two scenarios (with and without potential capital project moving forward).

*What does it take to make an institution “best-in-class?” Upon thorough comparison, one factor emerged as a common thread among thriving cultural institutions that help generate an enviable quality of life: **fiscal stability** provided by endowments, long-term public funding, or both.*

Thrive Report, Benefactor Group, 2006

CMC's ability to fulfill its mission at the Union Terminal without additional public funding for operations will require the realization of one (or both) of the following ambitious scenarios.

- complete restoration of Union Terminal, or
- an endowment totaling approximately \$125 million, providing annual operating support of approximately \$5.5 million to supplement the cost of operating Union Terminal and provide support for museum programs and administration.

In April 2013, Messer Construction has provided an analysis of the cost to construct a new museum center, as an alternative to the extensive restoration of Union Terminal. Their analysis is based on standard industry estimates of the cost to construct museum facilities and exhibits (300,000 square feet) and parking garage (350,000 square feet.) The total estimated costs were \$191 million, excluding the cost of land acquisition.

Based on our review of the Cincinnati Museum Center and our experience with nonprofit cultural institutions, we have developed two scenarios, which may illustrate the impact of a significant capital project on the sustainability of CMC (see below.)

Table 14: Matrix of Scenarios With and Without a Capital Project

| | | With Capital Project | Without Capital Project (as currently located in Union Terminal) |
|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Increased Revenue | | | |
| Earned Revenue | Earned revenue may diminish significantly during the disruption of construction. CMC should anticipate a significant spike in earned revenue in the year of reopening (or a series of smaller spikes if each museum is renovated and reopened sequentially). Subsequently, earned revenue may level off at a slightly higher amount and then grow incrementally. | Earned revenue may be sustained in the short term. Revenue from admissions and <i>per-capita</i> visitor spending could become increasingly dependent on special exhibitions as the museums' permanent displays become worn and outdated. | |
| Contributions | The capital project may be funded through a public-private partnership, which could allow CMC to mount a comprehensive campaign blending capital, endowment, and operating funds into a singular effort. Typically, successful comprehensive campaigns result in a higher level of donor engagement and support over the long term. | In the future, CMC may struggle to sustain annual contributions if museum exhibits decline or become obsolete. Donors' potential support of a capital campaign to restore portions of Union Terminal could be contingent upon a clear demonstration of complementary public sector funding for the building. | |
| Investment (Endowment Draw) | Endowment resources may be bolstered as a result of increased donor engagement (and perhaps through the inclusion of endowment in a comprehensive campaign to help fund museum renovations.) Future endowment draws can be devoted largely to mission-aligned programs and activities rather than maintenance or occupancy costs. | Without the capital project, many donors may be reluctant to make unrestricted gifts to an endowment whose purpose will be unclear; gifts for restricted purposes such as outreach and education should not be similarly affected. The endowment may grow slowly as CMC receives occasional deferred gifts from donors who included CMC in their estate plans in years past. | |
| Decreased Expenses | | | |
| Program Services | A decrease in program expenditures should have an overall negative impact on CMC's mission and fiscal sustainability, regardless of the state of the building. | | |
| Facility Maintenance | Maintenance costs, including utilities, should decrease once the building's deterioration is halted and repairs improve energy efficiencies. | Maintenance costs, including utilities, are likely to increase as the building continues to deteriorate. Any reduction in expense may accelerate the pace of deterioration and/or pose a risk to museum employees and visitors. | |
| Sales, Marketing, and Development | With the adoption of the recommendations in the TATC report and completion of the merger (of the original four museums), CMC has realized operational efficiencies. Future operational expenses may be further decreased through cost sharing as a result of the merger with NURFC. | | |
| General and Administrative | | | |

Task 5: Recommendations

The following recommendations are based on our analysis of the Cincinnati Museum Center, in light of museum management and financial best practices. The recommendations form the basis for future contractual requirements upon the passage of the next levy.

A. Update planning.

The museum's current planning documents were largely developed prior to the Great Recession and the NURFC merger, with the most recent "refresh" occurring in 2009. To a large extent, CMC has fulfilled the operational and programmatic objectives of these plans. The larger vision has been hindered, however, by two factors: challenging economic conditions and the unresolved issues of the renovation/restoration of Union Terminal.

Although several questions about Union Terminal remain unresolved, the museum will benefit from both the process of planning and the resulting documents. According to the American Alliance of Museums:

An institutional plan (sometimes called a strategic plan or a long-range plan) is a document that guides the museum's acquisition, growth, and allocation of resources. It is generally multi-year and has measurable goals and methods by which the museum evaluates success... An institutional plan should be current (up-to-date) and aligned with mission. Since resources are finite and communities evolve, museums engage in planning to be sustainable and relevant. An institutional plan integrates and focuses operations in order to meet mission and the needs of its audience and community.

<http://www.aam-us.org/docs/continuum/developing-an-institutional-plan-final.pdf?sfvrsn=2>

We recommend planning processes that encompass the following.

- A vision for CMC's continued contributions to the region, incorporating its impact on education, the economy, and other quality-of-life factors.
- Strategies to increase attendance and visitor engagement. The data collected through Siriusware should provide a better understanding of visitors' behavior patterns and a more accurate count of actual discrete visitors (versus the former system which provided only the number of visits to each museum attraction, thereby double-counting those who visited multiple attractions on a single visit).
- Continued integration of NURFC into the museums' operational and programmatic activities.
- Financial projections illustrating income and expense trends.

Important museum constituencies—the boards, volunteer corps, public officials, educators—should be involved in the planning processes. Their contributions will ensure that the plans address broad community needs and aspirations, and will increase the likelihood that these individuals will contribute to the successful execution of the resulting plans—whether as funders, program partners, or informed advocates.

The resulting documents may envision multiple scenarios with different assumptions about the extent of public funding and the status of Union Terminal's restoration. They should include specific quantifiable goals for public engagement, education and research programs, operations, etc. We also recommend the inclusion of a succession plan to ensure the sustainability of CMC's executive team and volunteer leadership.

B. Increase the capacity of the finance team.

In working with CMC over the past 60 days on this project, the finance team has been incredibly responsive to all information requests. As discussed in Task 2, CMC's existing finance staff members have adequate financial capacity. However, it appears, with the outsourcing of various accounting functions (allocation of functional expense reporting at year-end) and other demands placed upon the department during this short span of time, the finance department is understaffed at the experienced staff or senior accountant level. As a result, the current officers are obligated to work below their expertise level in order to fulfill the department's day-to-day reporting duties. We recommend that CMC continue to pursue qualified candidates with adequate nonprofit reporting experience in order for the department to operate under the most effective and efficient leverage model.

C. Increase the impact of the Endowment.

CMC has been drawing a moderate amount from its endowment. While this may have allowed the corpus to grow more quickly in recent years, we suggest that it is time to increase the annual draw to a *minimum* of 4.5% (of the funds' total value averaged over the trailing 12 quarters). This will result in several benefits for the organization.

- Increased annual resources can be devoted to facilities, programs, or administration. Even if the increased resources are not needed to supplement annual operations, a portion of the draw can be added to CMC's reserves where they will provide greater liquidity and flexibility than endowed funds.
- When the endowment draw is too conservative, donors may not be inspired to add to the endowed funds; they may conclude that they can have a greater impact on the organization when they control the funds themselves.
- When endowment funds are used to support essential programs and services, CMC will be able to make a stronger, more compelling case with future donors.

We also encourage CMC's leaders to renew efforts to increase the endowment through new contributions. In particular, refresh the legacy society and the marketing of planned gifts. In addition to the current emphasis on bequest giving, encourage donors to designate CMC as a beneficiary (partial or full) of assets that bypass probate (such as life insurance policies or certain retirement assets). Consider establishing an "evergreen" program for upper-level members/donors (i.e., provide incentives for current donors to sustain their annual support while also establishing a planned gift that will provide perpetual revenue for CMC—for example, a \$5,000 annual donor may be asked to consider a \$100,000 planned gift to the endowment, which will produce \$5,000 of income in perpetuity).

Moving forward, goals for CMC's endowment should be based on multiple factors. In addition to the total value of the funds, targets should be established for:

- the amount of the endowment that is unrestricted (or designated in broad field of interest funds) rather than designated for narrow specific purposes, measured either in actual dollars or as a percentage over the previous year;
- an annual dollar goal for new gifts and short-term pledges;
- increases in the number of planned gifts (i.e. members of the legacy society); and
- the amount to be drawn from the endowment funds each year, measured in actual dollars.

The full impact of the endowment (including funds held by others) should be communicated clearly in documents accessible to the public. Public reports should clarify the amount drawn

from CMC's endowment funds as well as the income derived from the funds held by others. CMC should also report on the uses of these funds, and the resulting benefits for the community.

D. Work with county and city leaders to resolve ownership of Union Terminal.

A small task force with representatives from all three entities (city government, county government, and CMC) should study this issue carefully and recommend (a) which entity is best suited to assume full ownership of the building, (b) the steps that must be taken for the legal status of ownership to be established, and (c) the resulting beneficial impact, such as the possibility of pursuing tax-credit financing.

The result of this effort may bring other benefits. By working together to resolve Union Terminal's ownership, the three parties may also galvanize the political will to forge a public-private partnership to secure the funds for the renovation and restoration of the architectural icon and civic treasure that serves as the Cincinnati Museum Center's home.

Conclusion

Museums are valuable cultural and economic assets. There are approximately 850 million visits each year to American museums, more than the attendance for all major league sporting events and theme parks combined (483 million in 2011). (<http://www.aam-us.org/about-museums/museum-facts>)

Museums are also complex enterprises. They are expected to deliver extraordinary value to the communities they serve, while competing for visitors' leisure time, attracting support from donors, navigating challenging economic conditions, and managing expenses.

It is within this context that the Cincinnati Museum Center has earned the trust of Hamilton County's voters, civic leaders, and philanthropist. This assessment of CMC is intended to inform a decision about continued public investment, and to define reasonable expectations for the return on such an investment.